

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

FINANCIAL ACCOUNTING AT THE
DEFENSE INTELLIGENCE AGENCY

Report No. 97-045

December 12, 1996

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Department of Defense

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Acronyms

BQ	Air Force Base Level General Accounting and Finance System
CFO	Chief Financial Officers
DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
GAC	General Accounting and Reporting Subsystem
MSIC	Missile and Space Intelligence Center
NSA	National Security Agency



**INSPECTOR GENERAL
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December 12, 1996

MEMORANDUM FOR DIRECTOR, DEFENSE INTELLIGENCE AGENCY

**SUBJECT: Audit Report on Financial Accounting at the Defense Intelligence Agency
(Report No. 97-045)**

We are providing this audit report for review and comment. The audit was performed in response to the Chief Financial Officers Act of 1990 as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Intelligence Agency comments were partially responsive. We request additional comments by February 11, 1997, on establishing procedures to record liabilities, which management indicated could be delayed until FY 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Robert M. Murrell, Audit Program Director, at (703) 604-9507 (DSN 664-9507) or Mr. Marvin L. Peek, Audit Project Manager, at (703) 604-9587 (DSN 664-9587). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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For Auditing

Office of the Inspector General, DoD

Report No. 97-045
(Project No. 6RD-2018)

December 12, 1996

Financial Accounting at the Defense Intelligence Agency

Executive Summary

Introduction. Public Law 103-356 requires DoD to provide consolidated financial statements for FY 1996 to the Office of Management and Budget. Financial data from the Defense Intelligence Agency (DIA) will be included in the consolidated financial statements for DoD. The DIA reported \$785 million in assets and \$612 million in operating expenses to the Defense Finance and Accounting Office for FY 1995.

Audit Objectives. The overall audit objective was to assess internal controls and compliance with laws and regulations to determine whether DIA accounting systems can produce reliable information necessary to prepare financial statements required by the Chief Financial Officers Act. We also reviewed supporting documentation for financial information DIA provided to DFAS for FY 1995 and tested accounting transactions to validate the effectiveness of accounting operations and controls.

Audit Results. The DIA accounting records did not contain accurate financial information, and information reported to the Defense Finance and Accounting Service for FY 1995 was incorrect. A major inaccuracy included up to \$222.5 million in disbursements for DIA by others that DIA had not recorded in accountable records as of June 30, 1996. As a result, financial information and reports cannot be relied on to produce accurate financial statements required by the Chief Financial Officers Act.

The management control program could be improved by correcting material weaknesses in accounting and property controls and reporting. Recommendations in the report, if implemented, will assist DIA in preparing accurate financial data to be included in the consolidated DoD financial statements required by Public Law 103-356.

Summary of Recommendations. We recommend that DIA establish controls to verify that disbursement vouchers are accounted for and provide resources to reduce the backlog of unrecorded disbursements; verify that all DIA property meeting DoD capitalization criteria is recorded in the general ledger, supported by subsidiary records, and reconciled periodically; recognize income and accounts receivable based only on actual or constructive performance of reimbursable orders; promptly bill customers, record collections, and follow up on delinquent accounts receivable for goods and services provided; and ensure that reported advances and liabilities are valid and supportable. We also recommend that DIA tailor management control evaluations to the specific control objectives necessary to correctly account for and report information for the financial statements required by the Chief Financial Officers Act.

Management Comments. The DIA generally concurred with the recommendations and stated that corrective actions have been or would be implemented. The DIA conditionally concurred with recommendations to record accrued liabilities from field centers and to record employee payroll costs earned, but not paid. DIA based its conditional concurrence on programming changes that the National Security Agency

plans to make in FY 1998 to the accounting system used by DIA. The DIA nonconcurred with the recommendation to record income and accounts receivable from reimbursements based on actual or constructive performance. Management stated that it was unable to comply and will request a waiver from the Office of the Secretary of Defense to continue to record earnings and accounts receivable from reimbursements based on obligations. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. The DIA does not need to wait for the National Security Agency to make comprehensive programming changes to the accounting system before recording accrued liabilities from DIA field centers and accrued payroll for DIA employees. DIA can record accounts payable for the DIA field centers when it manually records other monthly summary information for the field centers. Further DIA can use procedures that the National Security Agency currently uses to record monthly accrued payroll. Therefore, we request that DIA reconsider its position and provide additional comments on the final report by February 11, 1997. We disagree that DIA cannot record reimbursable income based on actual or constructive performance, but the DIA action to request a waiver meets the intent of the recommendation. If DIA receives a waiver from the Office of the Secretary of Defense not to comply with the DoD key accounting requirement for accrual accounting, DIA should provide appropriate footnotes to its financial statements.

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Part I - Audit Results

Audit Background

The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) requires Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. Financial statements for the Defense Intelligence Agency (DIA) will be included in the consolidated financial statements for DoD. The DIA reported \$785 million in assets and \$612 million in operating expenses to the Defense Finance and Accounting Office (DFAS) for FY 1995.

Accounting Systems Used by DIA. On October 1, 1993, the DIA began using the General Accounting and Reporting Subsystem (GAC) to perform budgeting and accounting for funds appropriated in FY 1994 and subsequent years. The GAC is owned and maintained by the National Security Agency (NSA). The GAC uses standard DoD general ledger accounts and is a near, real-time-on-line, fully integrated accounting and management information system. An automated transaction journal maintains specific information for each transaction. The specific information is batch-posted to subledgers in the GAC at 15-minute intervals.

Based on the DIA FY 1996 budget, DIA expected to post about 82 percent of its budget to the GAC using individual transactions. The remaining 18 percent would be posted to the GAC in monthly summary entries for DIA field operating locations. DFAS systems maintain transaction accounting to support the summary entries for the Missile and Space Intelligence Center (MSIC), the Armed Forces Military Intelligence Center, and the Joint Field Support Center. Also, DIA receives summary obligation and disbursement data from 23 Department of State financial service centers for DIA Defense Attaché Offices and Defense Liaison Detachment Offices worldwide. Accounting personnel consolidate the accounting data and post that information to the GAC in monthly summary entries.

In addition, DIA used a DFAS-owned system, the Air Force Base Level General Accounting and Finance System (BQ System), to account for DIA funds appropriated before FY 1994. Accounting personnel used locally designed spreadsheets and data bases to summarize information for posting to the BQ and GAC systems for inclusion in budgetary reports required by DFAS.

Accounting Responsibilities. During FY 1993, as a result of Defense Management Report Decision 910, DFAS assumed responsibility for many accounting and finance functions performed throughout DoD. However, due to security requirements, the Under Secretary of Defense (Comptroller) allowed DIA to be supported by the NSA accounting system, the GAC, to provide secure finance and accounting services. DFAS is responsible for preparing DoD consolidated financial statements, which will include financial data provided by DIA.

Audit Objectives

The overall audit objective was to assess internal controls and compliance with laws and regulations to determine whether DIA accounting systems can produce reliable information for preparing financial statements required by the CFO Act. Also, we reviewed supporting documentation for financial information that DIA provided to DFAS for FY 1995 and tested accounting transactions to validate the effectiveness of accounting operations and controls. Appendix A discusses the audit scope and methodology and the review of the management control program. Appendix B provides details on related prior audit coverage.

Financial Accounting and Reporting

The DIA accounting records did not contain accurate financial information, and DIA information reported to DFAS for the FY 1995 financial statements was incorrect. A major inaccuracy included up to \$222.5 million in disbursements for DIA by others that DIA had not recorded in accountable records as of June 30, 1996. Accountable records and reported information were inaccurate because DIA:

- o did not adequately account for, promptly record, or correctly report disbursements;

- o did not follow DoD established capitalization criteria and did not reconcile the equipment account in the general ledger with property subsidiary records;

- o incorrectly recognized income and receivables from reimbursements prior to performance of reimbursable orders, and did not effectively bill and collect accounts receivable;

- o did not accrue liabilities and expenses in the GAC for funds appropriated after FY 1993, and did not validate liabilities shown in the BQ System for funds appropriated before FY 1994;

- o did not verify the validity of recorded travel advances; and

- o had not established effective management controls.

As a result, financial information produced and reported by DIA cannot be relied on to prepare accurate financial statements required by the CFO Act.

Recording and Reporting Disbursements

As of June 30, 1996, DIA had a backlog in recording disbursements by others. The backlog had been a problem during FY 1995 and continues for FY 1996 and has caused the asset, liability, and expense account balances to be misstated. Also, DIA did not have effective procedures to ensure that vouchers were accounted for correctly. In addition, DIA improperly aged the value of disbursements in transit on the monthly Problem Disbursement Report required by DFAS.

Recording Disbursements. As of June 30, 1996, DIA records showed \$222.5 million in disbursement transactions that had not been posted to DIA accounting records. The amount represented about 46 percent of the

disbursements recorded during FY 1996 as shown on the Report on Budget Execution for June 30, 1996. The unrecorded disbursement transactions were in various stages of processing as shown in Table 1.

Table 1. Unrecorded Disbursements as of June 30, 1996

<u>Category</u>	<u>Amount (millions)</u>
Disbursement vouchers awaiting processing	\$114.0
Disbursements in transit	87.9
Unreconciled differences in disbursements in transit	<u>20.6</u>
Total	\$222.5

Disbursement Vouchers Awaiting Processing. As of June 30, 1996, DIA had 2,067 vouchers valued at \$114.0 million that were not included in accountable records and were awaiting processing. (Processing included putting vouchers into specific voucher blocks and posting the vouchers to accountable records.) The DIA received the paid voucher packages from various disbursing organizations weekly. DIA accounting personnel separated the voucher packages into blocks for processing. The voucher blocks are totaled, assigned block dates, and recorded in a disbursement control log book for control purposes. In March 1996, due to delays in voucher block processing, DIA contracted for two additional personnel to assist in reducing the backlog of unprocessed disbursement vouchers. However, as of June 1996, DIA was still about 2 months behind in preparing vouchers for entry into accountable records (the GAC or the BQ System).

Disbursements in Transit. As of June 30, 1996, DIA reported to DFAS that \$87.9 million of disbursements by others was in transit. The \$87.9 million represented about 7,000 vouchers that DIA had blocked for recording in accountable records during the previous 6 months. Although the value of the disbursements in transit was not yet recorded in DIA accountable records, DIA reduced unpaid obligations on the monthly Report on Budget Execution to account for disbursements in transit identified at the end of each month.

Unreconciled Difference in Disbursements in Transit. In addition to the \$87.9 million that was not recorded in accountable records as of June 30, 1996, the DIA disbursement control log showed an additional \$20.6 million to be recorded in accountable records. After our initial review, DIA accounting technicians examined the unrecorded voucher blocks in the disbursement control log to determine whether the voucher blocks had been posted to accountable records. DIA accounting technicians reviewed the outstanding voucher blocks and concluded that the \$20.6 million in outstanding vouchers had been recorded because the vouchers were not on the desks of the accounting technicians. DIA

accounting personnel did not use the accounting records to verify that the outstanding voucher blocks marked as completed were actually recorded in accountable records. Consequently, the accounting technicians' reconciliation of the control log with the reported disbursements in transit was inconclusive.

Reporting Disbursements in Transit to DFAS. The DFAS requires DIA to submit to the DFAS Indianapolis Center a monthly Problem Disbursement Report showing the value of disbursements in transit. Because DIA reported only vouchers that had been blocked but not posted to accountable records, it understated disbursements in transit by \$114.0 million as of June 30, 1996. Also, due to a lack of reconciliation procedures between the disbursement control log and the appropriation summary worksheets, an additional \$20.6 million of unrecorded disbursements was not reported. Therefore, DIA significantly understated the value of disbursements in transit on the monthly Problem Disbursement Report provided to the DFAS Indianapolis Center. To determine the balance of disbursements in transit, DIA should include the value of all vouchers received but not yet processed and recorded, as required by the DFAS memorandum, "Policy and Procedures for Negative Unliquidated Obligations and Unmatched Disbursements," November 15, 1995.

In addition, DIA inappropriately aged the disbursements in transit balances reported on the Problem Disbursement Report as shown in Table 2 below.

Table 2. Comparison of Reported and Actual Dates for Unrecorded Disbursement Vouchers as of June 30, 1996

<u>Days Outstanding</u>	<u>Reported Amount (millions)</u>	<u>Actual Amount (millions)</u>
0 -- 30	\$25.3	\$ 0
31 -- 60	33.5	0
61 -- 90	27.6	18.2
91 -- 120	1.2	18.8
121 -- 180	0.3	36.9
181 -- 240	0	11.7
241 -- 300	0	1.0
301 -- 360	<u>0</u>	<u>1.3</u>
Totals	\$87.9	\$87.9

The DIA aged the disbursements in transit based on the date DIA accounting personnel prepared the voucher block. According to the November 15, 1996, DFAS memorandum, disbursements in transit (unrecorded disbursements) should be aged based on the date of the processing cycle of the disbursing activity.

As a result of the delay in preparing vouchers for entry into accountable records, DIA understated the amount of time the disbursements were in transit. In understating the length of delay in recording disbursements and the amounts

of disbursements not recorded in accountable records, DIA provided inaccurate information to DFAS. In addition, DFAS Policy Memorandum, "Problem Disbursement Reports," July 9, 1996, states that interim obligations are required for problem disbursements that exceed 300 days. Therefore, \$1.3 million in disbursements exceeding 300 days as shown in Table 2 would require an interim obligation of current funds.

Accounting for and Reporting Equipment

The cost of capitalized¹ equipment recorded in the general ledger and subsidiary property records was inaccurate, because DIA did not use DoD capitalization criteria, included equipment purchased for other DoD Components, did not reconcile equipment property records to the general ledger, and did not include the cost of Government-furnished property to contractors. Also, DIA did not use DoD capitalization criteria when reporting the equipment balance to DFAS for FY 1995.

Recording Equipment in the General Ledger. The DIA has used the GAC general ledger to record purchases of equipment since the beginning of FY 1994. Before FY 1994, DIA did not use a general ledger accounting system, and DIA elected not to record existing capitalized equipment balances in the GAC in October 1993 when DIA began using the GAC. Therefore, any capitalized equipment purchased before FY 1994 was not included in the GAC general ledger. Also, the NSA had not programmed the GAC to follow DoD capitalization criteria, and DIA had not established procedures to reconcile and adjust equipment balances in the general ledger with subsidiary property records.

Use of Capitalization Criteria. The Financial Management Regulation, volume 4, requires property to be capitalized when the cost of the property meets the DoD capitalization criteria. However, NSA had not programmed the GAC to capitalize only equipment that met DoD capitalization criteria. Therefore, all purchases coded as equipment were capitalized in the general ledger regardless of acquisition cost.

The DoD capitalization thresholds have gradually increased from \$1,000 before FY 1985 to \$100,000 when the Under Secretary of Defense (Comptroller) increased the capitalization threshold to \$100,000 for equipment acquired in FY 1996. Accordingly, assets acquired on or after October 1, 1995, should be capitalized if the acquisition cost is \$100,000 or more and the asset has an estimated useful life of 2 or more years. Inspector General, DoD, Report No. 96-212, "Capitalization of DoD Fixed Assets," August 19, 1996,

¹Property purchased is "capitalized" when it is recorded as an asset in financial accounting records. (The cost of property not capitalized is recorded as a current operating expense.)

recommends revising the capitalization criteria to require DoD Components to record in financial records only general plant, property, and equipment that meet the current threshold.

Equipment Purchased for Other DoD Components. DIA appropriations included funds to purchase equipment for other DoD Components without reimbursement. However, DIA had not established procedures to ensure that such equipment was not included in the equipment account in the GAC general ledger. During the first 8 months of FY 1996, 22 equipment purchases of more than \$100,000 each were posted to the equipment account in the GAC. Of the 22 equipment purchases, 6 were for equipment that DIA purchased for other DoD Components. For example, the equipment account in the GAC included \$435,000 for a Joint Worldwide Intelligence Communication System Switching Center for the Navy. Capital equipment purchased for or transferred to other organizations should be removed from the equipment account.

Reconciling Equipment Property Records to the General Ledger. DIA had not established procedures or management controls to reconcile equipment balances in subsidiary property records to equipment balances in the general ledger as required by the Financial Management Regulation, volume 1. Had DIA performed a reconciliation, it would have been difficult because the DIA did not record the balance of capitalized equipment in the GAC as of September 30, 1993, when DIA began using the GAC. Additionally, reconciliation of property books to the general ledger would have been further impeded because five DIA components maintained property books.

To facilitate reconciliation procedures between property records and the GAC general ledger, DIA should consolidate all equipment determined to be capitalized into one property subsidiary record. Also, DIA should make a one-time adjustment in the general ledger based on a physical inventory of property to agree with capitalized equipment shown in the subsidiary property record. Performing periodic reconciliations between the general ledger and subsidiary property book records will help ensure that the equipment balance is accurately supported in subsidiary records.

Recording Capitalized Equipment in Subsidiary Property Records. Procedures and management controls the DIA logistics personnel used were not adequate to ensure accurate costing and recording of capitalized equipment in property records. Equipment delivered directly to DIA end users was not recorded in property records, and the cost of equipment did not include installed items.

Equipment Delivered Directly to End Users. The DIA "Logistics Operations Manual," December 1989, requires that accountable property received directly from other agencies be reported to the property book officers within 5 days of acceptance. However, DIA did not have management controls to ensure that those procedures were followed. DIA recorded 22 procurement actions costing more than \$100,000 each in the GAC during the first 8 months of FY 1996. Of the 22 procurement actions, 7, totaling \$9.4 million, were for equipment delivered directly to end users within DIA. However, none of that

equipment was recorded in the property books. For example, DIA purchased two computer processors for \$5.5 million, but the equipment users and contracting officer representatives stated that they were not aware of the requirement to send a receiving report to the property book officer.

Costs of Installed Computer Equipment. DIA procedures were generally effective for recording equipment delivered directly to the DIA Central Receiving Warehouse. However, when receiving computer systems with equipment already installed in them, warehouse personnel recorded only the cost of the external hardware, because they could not readily identify installed items. For example, the property book included the cost of a computer server system for \$36,000 purchased under contract MDA908-92-D-1513 (delivery order 25), but excluded \$305,000 in installed equipment, such as memory expansion boards.

Government-Furnished Property. The DIA had not established procedures to report in its financial statements to DFAS the Government-furnished property to contractors. Part 45 of the Federal Acquisition Regulation requires contractors to maintain the official records of Government assets in the contractors' possession and to annually report the total acquisition cost of those assets. DoD contractors report Government-owned assets to the Defense Logistics Agency each year as of September 30 on DD Form 1662. The Financial Management Regulation requires that the capitalized value of Government-owned equipment furnished to contractors be recorded in an Equipment With Contractors account. As of September 30, 1995, DIA contractors reported \$12 million in Government-owned equipment on hand to the Defense Contract Management Command. Because DIA had not established procedures to report Government-furnished equipment, DIA personnel were not aware of the information contractors reported and consequently, DIA did not report equipment held by contractors.

Equipment Reporting Procedures for FY 1995. In its Report on Financial Position for FY 1995, DIA did not use DoD capitalization criteria for the \$204 million in equipment it reported to the DFAS Indianapolis Center. The DIA Accounting Office sent a memorandum to the five DIA components that maintained property books requesting a certification from each property book officer that the reported equipment balances were correct, met DoD capitalization criteria, and were supported by subsidiary property records. The DIA components provided the DIA Accounting Office with the required information. However, equipment balances were incorrect, and DIA components did not have records to support the balances provided for three of the five components. For example, the Logistics Division at DIA headquarters reported \$157 million in equipment and certified that the balance met capitalization thresholds and was supported by subsidiary records; however, Logistics Division personnel did not maintain records to support the balance. Logistics Division personnel stated that they had included all property on the property book rather than property that met the DoD capitalization criteria. As

of June 1996, only \$31 million of equipment on the property book of the Logistics Division showed a cost of at least \$50,000 each and met the FY 1995 capitalization criteria.²

Accounts Receivable and Income from Reimbursements

The accounts receivable balance of \$28.9 million as of May 31, 1996, was overstated because DIA incorrectly recognized income (and receivables) before completion of work on reimbursable orders. Also, DIA had not recorded checks received for reimbursable work performed and had not established effective controls over billing and followup on unpaid bills to organizations that owed DIA for reimbursable work performed.

Recognition of Accounts Receivable and Income from Reimbursable Orders. DoD 7220.9-M, "DoD Accounting Manual," October 1983, states that an earned reimbursement (reimbursable income) should be recognized when the performing organization renders "actual or constructive performance on a reimbursable order." However, DIA incorrectly recognized accounts receivable and income from reimbursable orders when funds were obligated for a reimbursable order rather than when the reimbursement was earned, causing income and accounts receivable from reimbursable orders to be overstated. For example, as of May 31, 1996, \$18.9 million in accounts receivable reported by DIA was based on reports of undelivered orders from MSIC. However, only \$697,000 of the \$18.9 million represented services performed and thus valid accounts receivable.

Backlog in Recording Funds Received from Reimbursable Orders. The DIA had a large backlog in recording checks received from other Government agencies for reimbursable work performed. Because NSA was responsible for depositing receipts for DIA, a DIA accountant forwarded checks to NSA for deposit with the U.S. Treasury. However, DIA did not promptly record vouchers received from NSA to show that the checks were deposited. As of July 22, 1996, DIA had 54 collection vouchers (the oldest voucher was dated August 1995) for \$1.2 million that had been received and deposited by NSA, but had not been posted to accountable records by DIA.

NSA accounting personnel stated that procedures could be established to allow NSA personnel to record deposits of DIA funds directly to the GAC general ledger for DIA. This procedure could reduce the backlog in recording checks received from DIA reimbursable orders.

²The automated property book system that the DIA Logistics Division used did not show the acquisition date for equipment. A DFAS memorandum, dated August 31, 1995, to DoD Components told them to report only equipment costing in excess of \$50,000 if organizations did not have the acquisition date needed to determine capitalization criteria for equipment purchased before FY 1995.

Unbilled and Uncollected Accounts Receivable. The DIA was delinquent in billing and collecting for reimbursable work completed. In our judgment sample of 15 customer accounts from the GAC as of May 31, 1996, billing and collection problems existed with 8 accounts:

- o DIA had not billed 4 customers for \$1.5 million for work completed during FY 1995, and

- o DIA was awaiting payment of \$1.1 million from 4 Government accounts that had been billed from 6 to 13 months prior to July 1996.

Accounting personnel stated that due to other priorities, they were not current in billing customers and collecting accounts receivable. Further, DIA had not established written procedures for billing customers and collecting overdue accounts receivable.

Reporting Income from Reimbursements. The DIA made an error in reporting reimbursable income on its FY 1995 Report on Operations to the DFAS Indianapolis Center. The DIA reported only the cash received from income from reimbursements during FY 1995 on the DIA Report on Operations rather than the income actually earned from reimbursable customers because the DIA staff accountant thought he was required to report only the cash received. This error could have been detected if DIA had reported financial information in the trial balance format required by the DFAS Indianapolis Center.

Recording and Reporting Liabilities

The GAC did not show accounts payable balances for DIA because the NSA had programmed the GAC to automatically accrue liabilities only when disbursements were recorded. The DIA will have to wait until NSA reprograms the GAC to easily recognize accounts payable for individual transactions posted to the GAC. However, accounts payable shown by DIA activities using DFAS general ledger accounting systems that track accounts payable balances could be manually entered into the GAC as part of the normal monthly summary bulk posting. Also, the accounts payable recorded in the BQ System (used for transactions for funds appropriated before FY 1994) were not reliable. In addition, DIA did not record payroll and unfunded annual leave liabilities and expenses in the GAC.

Unrecorded Accounts Payable Shown by DIA Field Locations. Accounting personnel performed transaction accounting for the MSIC and the Joint Field Support Center using DFAS general ledger accounting systems. As of June 30, 1996, the two centers' general ledgers showed \$3.5 million in accounts payable. However, DIA had not established procedures to post monthly totals of liabilities recorded by field centers. Posting accounts payable reported by DIA field locations will increase the accuracy of the GAC.

Reliability of Accounts Payable. As of April 30, 1996, the BQ System showed \$11.9 million in accrued expenditures unpaid (accounts payable). However, the accounts payable were not reliable because DIA recorded liabilities before receiving invoices and did not perform required followup on unpaid accounts payable.

Recording Accounts Payable. The DIA used the BQ System to post transactions affecting funds that were appropriated to DIA before FY 1994. The BQ System was a non-general ledger accounting system that categorized unpaid obligations into undelivered orders and accrued expenditures unpaid. DIA accounting technicians stated that they had routinely recorded obligations as accrued expenditures unpaid (accounts payable) rather than as undelivered orders because the accounting technicians did not know when the items or services would be received by DIA.

Followup on Accounts Payable. DIA Operating Procedure No. 27, "Review and Reconciliation of Unliquidated Obligations," April 1, 1988, requires accounting technicians to review unliquidated obligations that do not show activity during the preceding 6 months. As part of the review, written requests were to be sent to obtain billing documents. However, the Chief of DIA Accounting Operations stated that due to a lack of personnel, DIA had not been able to follow up on unliquidated obligations (which include accrued expenditures unpaid.) The DIA had one technician reviewing unliquidated obligations for funds to be canceled on September 30, 1996, but accounting technicians were not reviewing unliquidated obligations for appropriations not subject to cancellation at the end of FY 1996. For example, the May 31, 1996, Allotment Ledger of the BQ System showed \$5.2 million in liabilities in excess of \$100,000 for DIA cost centers. However, for \$3.4 million of the \$5.2 million, no changes had been recorded for 20 to 57 months.

Accrued Payroll Liabilities. The NSA had programmed the GAC to record obligations for DIA payroll liabilities processed by NSA at the end of each month. However, DIA did not enter the accrued obligation as an expense and liability in the GAC as required by the Financial Management Regulation, volume 4. As of June 30, 1996, DIA had \$4.8 million in unrecorded accrued payroll liabilities for DIA personnel payroll processed by NSA.

Accrued Unfunded Annual Leave. The DIA made annual estimates of the unfunded annual leave liability and included an estimate of \$20.9 million in its Report on Financial Position for FY 1995. However, the estimate was not recorded in the GAC as a liability as required by the Financial Management Regulation, volume 4. Volume 4 also requires an Annual Leave Expense account to be established to record the annual leave earned by civilian employees during the operating period.

Travel Advances

The amount of travel advances outstanding shown in DIA accounting records was not reliable, and reported advances of \$1.9 million on the Report on Budget Execution as of May 31, 1996, still included \$1.5 million in travel advances that had been issued 8 to 71 months before May 1996. Although new DoD and DIA policies for issuing advances and settling travel vouchers should reduce the number of future outstanding travel advances, DIA needs to establish procedures to validate and collect valid travel advances.

Validity of Travel Advances. Although DIA Operating Procedure No. 60, "Monitoring Travel Advances," September 28, 1992, established procedures to monitor travel advances, DIA accounting personnel did not consistently review outstanding travel advances. Also, accounting personnel did not promptly or correctly record travel voucher settlements in the accountable records. Our review of 28 outstanding travel advances of at least \$10,000 each and totaling \$374,000 as of May 1996 showed that accounting personnel did not effectively follow up on outstanding advances, made errors in posting, and did not initiate actions to collect outstanding advances after travel vouchers had been paid.

- o The DIA did not adequately follow up on 19 travel advances reviewed. The travel orders for those advances showed that travel should have been completed from 8 to 96 months before May 1996. Following an audit of travel advances by the DIA Inspector General, DIA accounting personnel sent memorandums to the DIA project directors sponsoring the travel or to the traveler, requesting copies of settled travel vouchers for 5 of 19 the travel advances. For the remaining 14 advances, DIA did not follow up with the traveler or the DIA project director to try to clear the advance. For one advance totaling \$11,701, the traveler sent DIA a copy of the unprocessed voucher. However, DIA did not contact the traveler to request a copy of the settled voucher to clear the advance.

- o The DIA did not reduce the recorded amount of advances when six travel vouchers were settled, because the travelers owed a portion of the total advance to the Government after settlement. Therefore, the six advances were overstated by \$60,188. In addition, travelers had three other advances of \$34,122, but DIA had not recorded the transactions due to delays in posting transactions by others. For example, one travel voucher with an advance of \$14,000 was settled in February 1993, but was not recorded in DIA records.

- o The DIA made computational errors for 3 of the 28 advances reviewed, causing an overstatement in the advances by \$21,714. For example, one advance for \$4,405 was posted twice to accounting records.

- o The DIA had not taken actions to collect \$23,536 owed to the Government for six advances after the personnel had settled their vouchers. For example, one traveler failed to indicate on his travel voucher that he had received a \$6,336 travel advance, and he was erroneously paid for the full amount of travel in September 1995. However, DIA had not taken action to recover the \$6,336 due the Government.

Financial Accounting and Reporting

We cannot make statistical projections on the validity of recorded travel advances because we did not use random sampling procedures and because DIA did not have documentation showing whether the travel for 18 of the 28 advances had taken place. However, the number of errors identified and the value of old travel advances remaining in the accounting records indicate a need for DIA to establish management controls.

Policy Affecting Travel Vouchers. Changes in DoD and DIA policies affecting payment of travel vouchers and issuing advances should reduce the number of outstanding travel vouchers.

- o DoD issued new policy, effective October 1, 1996, that travel payments must be made only by the disbursing office at which the accounting records are maintained. That policy was issued in a memorandum from the Under Secretary of Defense (Comptroller), "DoD Cross-Disbursed Travel Payment Policy," August 2, 1996. In the past, DIA personnel stated that travel vouchers for non-DIA personnel were paid at various disbursing stations and that paid vouchers were lost or delayed, preventing DIA from promptly recording settlement of travel vouchers. The new DoD policy should prevent non-DIA personnel who complete DIA-funded travel from submitting travel vouchers at their home stations.

- o As of August 1996, DIA was revising DIA Regulation 45-5, "Travel Advances and Government-Contractor-Issued Travel Charge Cards." The revision will significantly reduce the number of personnel allowed to receive DIA-issued travel advances in lieu of receiving advances from the Government-issued travel cards. (Because advances from Government-issued travel cards are not issued by the Government, the advances are not recorded in financial accounting records.)

The DoD and DIA policy changes should reduce the number of travel advances issued and the number of remaining travel vouchers outstanding. However, DIA accounting personnel must determine the validity of existing advances, establish controls to collect advances remaining after completion of travel, and remove invalid advances from accountable records to ensure the validity of financial statements.

Use of GAC by DIA

In our audit of the NSA accounting system, "Financial Accounting for the National Security Agency," Report No. 96-213, August 20, 1996, we reported several problems with the GAC. The report shows that NSA needs to do the following.

- o Reprogram the GAC to produce trial balances by appropriation and fiscal year in order to meet DFAS requirements.

- o Use accrual accounting procedures. The GAC was programmed to post expense and liability accruals only when disbursements were made. As a result, expenses and liabilities will always be understated.

- o Establish an Appropriated Capital Used account as required by the Financial Management Regulation. That account is a revenue account used to "record accrued expenses (versus outlays) of appropriated funds. The purpose of the account is to match current period expenses against the use of appropriated funds to finance those expenses."

- o Program the GAC to capitalize only equipment purchases that meet DoD capitalization criteria.

Because NSA is responsible for making programming changes to the GAC, DIA will have to await completion of the programming changes before the problems at DIA can be fixed.

Management Control Program

In performing evaluations for the FY 1994 Annual Statement of Assurance, DIA logistics and financial management personnel listed functions, products, authorizing and controlling directives, and other management controls for each assessable unit. (DIA defined assessable units as organizations.) However, DIA did not perform vulnerability assessments or management control reviews. In April 1996, the DIA Comptroller published a new managers' checklist for evaluating management controls. However, the checklist was not tailored for the specific control objectives for each assessable unit and did not ask management to assign a level of risk for each assessable unit. The completed FY 1996 checklist by the Office of Logistics Services did not identify any weaknesses. The completed FY 1996 checklist by the Deputy Comptroller for Financial Policy and Accounting stated that DIA did not use a DoD standard general ledger for reporting purposes, but identified none of the other weaknesses discussed in this report.

Developing management self-evaluation checklists with specific control objectives for financial and property accounting functions should enable DIA management to identify management control weaknesses. Because of the management control weaknesses for disbursements by others, capitalized equipment, accounts receivable, accounts payable, and travel advances--DIA should develop a tracking mechanism to report progress in achieving desired management objectives. This tracking mechanism should help DIA to prepare required financial statements that are accurate and reliable.

Accounting Support for the Central Imagery Office

The DIA performed accounting and reporting functions for the Central Imagery Office until it was incorporated into the newly established National Imagery and Mapping Agency on October 1, 1996. The DIA will continue to perform accounting support only for funds provided to the former Central Imagery Office before FY 1997.

When DIA began using the GAC on October 1, 1993, for DIA accounting, DIA also began using the GAC for financial accounting support for the Central Imagery Office. Therefore, deficiencies in the GAC, as previously discussed; delays in posting disbursements; and improper recognition of reimbursable income will affect the accuracy of financial statements for the National Imagery and Mapping Agency. For example, due to delays by DIA in processing disbursement vouchers for the Central Imagery Office, DIA reported that \$19.2 million in disbursements by others had not been posted to accountable records of the Central Imagery Office as of June 30, 1996. That amount was 45 percent of the \$42.6 million of the total expenditures reported by the Central Imagery Office for FY 1995.

Accounting support for the Central Imagery Office was not in the scope of the audit. However, accounting records and reports for that appropriation provided to the former Central Imagery Office will be unreliable or incorrect until the GAC is reprogrammed and until DIA implements recommendations in this report related to accounting procedures.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. As a result of management comments and ongoing audit work concerning adjustments and reporting of Fund Balance with Treasury by the DFAS Indianapolis Center, we deleted draft Recommendation 17. to reduce the reported Fund Balance with Treasury in annual financial statements for funds canceled by the U.S. Treasury. Accordingly, we renumbered draft Recommendation 18. as Recommendation 17. in the final report.

We recommend that the Director, Defense Intelligence Agency:

1. Establish controls to verify that all received vouchers are accounted for and reported accurately.

2. Prepare the monthly Problem Disbursement Report in accordance with the Defense Finance and Accounting Service

memorandums, "Policy and Procedures for Negative Unliquidated Obligations and Unmatched Disbursements," November 15, 1995, and "Problem Disbursement Reports," July 9, 1996.

3. Provide sufficient resources and management attention to eliminate the backlog of unrecorded disbursements that have not been recorded in accountable records.

4. Establish procedures to capitalize property purchases in the General Accounting and Reporting Subsystem in accordance with DoD asset capitalization criteria in the Financial Management Regulation, and ensure that only property owned by the Defense Intelligence Agency is capitalized.

5. Perform a physical inventory for equipment meeting DoD capitalization criteria, consolidate the results into one subsidiary property record, and make a one-time adjustment to the General Accounting and Reporting Subsystem to reconcile the two balances.

6. Establish procedures to periodically reconcile the equipment account in the general ledger with subsidiary property records for capitalized equipment.

7. Establish procedures and controls for maintaining subsidiary property records for capitalized equipment to:

a. Require contracting officer representatives and end-users of equipment delivered directly to Defense Intelligence Agency components to report the equipment to property book personnel.

b. Record the complete cost of installed equipment in property records.

8. Establish procedures to record balances of Government-furnished equipment in accounting records.

9. Record and report income and accounts receivable from reimbursable customers based on actual or constructive performance of reimbursable orders.

10. Establish procedures to verify that checks received for reimbursable orders are promptly recorded.

11. Establish controls and document procedures to bill customers for goods or services provided, and promptly follow up on delinquent accounts receivable.

12. Implement procedures to record accounts payable in the General Accounting and Reporting Subsystem from the general ledgers of Defense Intelligence Agency field centers.

13. Review the validity of outstanding accounts payable shown in the Air Force Base Level General Accounting Finance System.

14. Establish procedures to record accrued payroll and annual leave liabilities and expenses in the General Accounting and Reporting Subsystem, and report the information in annual financial statements.

15. Review the validity of outstanding travel advances to verify that recorded advances are correct, valid, and supportable.

16. Adjust accounting records to show only valid travel advances, and take appropriate actions to collect outstanding travel advances owed to the Government.

17. Establish procedures as part of the management control program to:

a. Tailor self-evaluations of financial and property accounting functions to specific management control objectives necessary for effective management.

b. Track progress in achieving control objectives for recording disbursements by others, accounting for capitalized equipment, billing and collecting accounts receivable, verifying the validity of accounts payable and travel advances, and collecting outstanding travel advances.

Management Comments. The DIA generally concurred with the recommendations and stated that corrective actions have been or would be implemented. Regarding Recommendation 9, DIA stated that due to the "nature of DIA's reimbursable activity worldwide," DIA was unable to comply with the requirement to record reimbursable income based on actual or constructive performance. DIA will request a waiver from the Office of the Secretary of Defense to record reimbursable earnings based on obligations.

The DIA conditionally concurred with Recommendations 12. and 14. to establish procedures to record specific liabilities in the GAC, stating that DIA is dependent on NSA to modify the GAC before complying with the recommendations. The NSA actions are projected to occur in FY 1998.

Audit Response. We do not agree with the DIA conclusion that it cannot comply with Recommendation 9. to record income and accounts receivable from reimbursable customers based on actual or constructive performance of reimbursable orders. However, the DIA action to request a waiver meets the intent of the recommendation. During the audit, DIA personnel stated that they believed that income from reimbursable customers was required to be reported based on obligations. If the Office of the Secretary of Defense grants DIA a waiver from complying with the DoD key accounting requirement for accrual accounting, DIA should state its noncompliance in an appropriate footnote to the DIA financial statements required by the CFO Act.

The DIA comments on Recommendations 12. and 14. are not responsive.

Recommendation 12. DIA personnel manually enter DIA field centers' obligations and disbursements into the GAC based on monthly reports from the DIA field centers. Information on accounts payable is already shown in the general ledgers of the DIA field centers. Entering accounts payable in the GAC during the monthly bulk posting of information from the field centers is not contingent on NSA modifying the GAC to accrue individual transactions. Therefore, DIA does not need to wait for NSA to modify the GAC before accruals of liabilities can be posted to the GAC. Failure to record known accounts payable does not comply with DoD key accounting requirements.

Recommendation 14. The DIA also does not need to wait until NSA modifies the GAC to record accrued payroll liabilities at the end of each month. NSA personnel stated that they are currently recording estimated payroll liabilities in the GAC each month based on the audit recommendation in audit Report No. 96-213 (see Appendix B). Accounting personnel for DIA should be able to follow NSA procedures because NSA performs payroll functions for DIA personnel.

We request that DIA reconsider its position on the two recommendations in response to the final report.

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Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the DIA consolidated trial balance produced by the GAC as of September 30, 1995, and the monthly trial balances for April through June 1996. We compared general ledger accounts to subsidiary records within the GAC and other supporting records with assets and liabilities. We also reviewed DIA procedures for consolidating and posting monthly bulk transactions to the GAC for DIA organizations that did not use the GAC for transaction accounting; and we reviewed procedures DIA used to record information in the BQ System, for funds appropriated before FY 1994. In addition, we reviewed DIA procedures to consolidate information from the GAC and other sources to prepare the Report on Budgetary Execution. The dates of account balances we reviewed, as shown in the finding, vary from April through June 1996, because we tried to report the most current information to assist DIA personnel in validating account balances for the FY 1996 financial statements. In addition, we reviewed the procedures and controls that property book officers used to report capitalized equipment for the Logistics Division, Network Division, Defense Attaché Office Logistics Division, and the MSIC.

We interviewed personnel at DIA components in the Washington, D.C., area and at MSIC, Redstone Arsenal, Alabama. We also spoke with personnel at the NSA Directorate of Finance and Accounting, Linthicum, Maryland, which maintained the GAC, and at the DFAS Accounting Office at Redstone Arsenal, Alabama, which processed accounting information for MSIC.

We also performed limited reviews of transactions and selected account balances and took the following judgment samples.

- o We reviewed the 22 equipment purchases exceeding \$100,000 each that were recorded in the GAC during October 1995 through May 1996 to verify that equipment was on hand and properly recorded in subsidiary property records. The review included \$13.2 million of the \$16.7 million recorded in the GAC equipment account for that period.

- o We reviewed 15 accounts receivable exceeding \$100,000 each and totaling \$13.0 million that were recorded in the GAC as of May 31, 1996, to determine their validity. Accounts receivable reported as of May 31, 1996, totaled \$28.9 million.

- o We reviewed the 28 travel advances of at least \$10,000 each and totaling \$374,000 that were shown in accountable records as of May 31, 1996, to determine their validity. Reported advances as of May 31, 1996, totaled \$1.9 million.

We reviewed management controls used to produce required, supportable financial information necessary for financial statements required by the CFO

Act. Because this audit was not intended to provide an overall opinion on the reported balances in financial reports, we did not perform comprehensive reviews or statistical sampling of transactions supporting the GAC general ledger or the BQ System.

Use of Computer-Processed Data. During our audit of "Financial Accounting for the National Security Agency," August 20, 1996 (Audit Report No. 96-213), we determined that the GAC and supporting subsystems will correctly show data entered into the GAC. However, the delay in posting transactions to the GAC, the practice of recognizing reimbursements receivable and income before it is earned, the lack of general ledger control over equipment, and the failure to record liabilities until disbursements were made caused information recorded in the GAC to be unreliable. Also, our review of the data from the automated property accounting system the DIA Logistics Division used indicated that the property book was incomplete and did not include all costs and, therefore, could not be relied on.

Audit Period and Standards. We performed this financial-related audit from May through August 1996. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, based on the objectives of the audit, and the limitations in the scope described in this appendix.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of DIA controls over recording and reporting information in financial and property accounting records. Specifically, we evaluated DIA procedures to record financial information in accountable records; the adequacy of accounting controls to ensure reliability of financial information; and on a limited basis, the validity of documentation supporting reported information. In addition, we evaluated the effectiveness of DIA managers' self-assessments of controls for financial accounting and reporting.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Directive 5010.38, for DIA. The DIA had not established adequate controls to ensure that disbursements by others were correctly accounted for, promptly recorded, and reported. Also, the accountability, control, and reporting of equipment was not sufficient to provide reasonable assurance that primary control objectives were met. In addition, controls over posting and billing reimbursable customers and in verifying the validity of advances and liabilities needed improvement. Recommendations 1., 4., 6., 7., 10., 11., 13., 15., 16., and 17. in the report, if implemented, will

Appendix A. Audit Process

improve management controls over financial accounting procedures. A copy of the report will be provided to the senior official responsible for management controls at DIA.

Adequacy of Management's Self-Evaluation. The DIA recognized assessable units by organization rather than by function. For the FYs 1994 and 1995 Annual Statements of Assurance, management did not report any material weaknesses. The self-evaluations performed by the logistics and accounting personnel in June 1996 did not identify the level of risk associated with their organizations, and the checklists used were not tailored for each assessable unit. The Deputy Comptroller for Financial Policy and Accounting stated that DIA did not use a DoD standard general ledger for reporting purposes. However, self-evaluations by accounting and logistics personnel did not identify other material management control weaknesses identified by the audit because the management checklists were not tailored to specific control objectives for each assessable unit (organization).

Appendix B. Prior Audits and Other Reviews

Inspector General, DoD

Report No. 96-213, "Financial Accounting for the National Security Agency," August 20, 1996. The report states that the GAC was capable, if modified, of producing information necessary for financial statements required by the CFO Act. However, correcting deficiencies in the accounting system and establishing effective management controls are essential to produce accurate financial statements for NSA. The report recommends that NSA reprogram its accounting system to produce required information for financial statements; establish procedures to record asset purchases, expenses, and liabilities when they occur; and establish procedures and management controls to ensure that information in the general ledger is correctly stated, adequately supported, and complies with financial management regulations. The NSA generally concurred with recommendations and agreed to take recommended corrective actions.

Report No. 96-161, "Compilation of FY 1995 and FY 1996 DoD Financial Statements at the Defense Finance and Accounting Service, Indianapolis Center," June 13, 1996. The report states that the DFAS process to compile the Army General Fund CFO financial statements was acceptable as an interim solution, but improvements in the compilation process were needed. The report recommends improvements in internal controls to ensure that required footnotes are prepared, auditor-recommended adjustments have been made, and adjustments are fully documented. The improvements in internal controls could also help DFAS in compiling financial statements for the Defense agencies, because DFAS will use the same process to compile FY 1996 CFO financial statements for Defense agencies. The DFAS concurred with the recommendations, and its planned actions were considered responsive.

Inspector General, DIA

Project No. 94-1526-GQ-001, "Report of Inspection, Missile and Space Intelligence Center," December 16, 1994. The report states that the MSIC was meeting mission requirements in a highly effective and responsible manner. However, internal controls need to be strengthened, and DIA headquarters needs to increase its functional assistance and oversight. Specific recommendations related to management controls, logistics, and financial management were that DIA:

- o establish internal controls to track obligating documents and coordinate with DFAS to obtain receipt for documents sent to DFAS;

Appendix B. Prior Audits and Other Reviews

- o conduct staff assistance visits to review internal control procedures to ensure that obligations and costs comply with applicable laws;

- o install a GAC terminal at MSIC to directly record and review accounting and budgetary information;

- o conduct staff assistance visits to ensure that MSIC managers and personnel understand and comply with DIA property accountability regulations, and establish and implement property accountability procedures in accordance with DIA regulations;

- o perform a 100-percent inventory of all property and reissue appropriate receipts;

- o develop a comprehensive management control program that establishes responsibilities for managers at all levels, evaluates the management process, and ensures that all management controls are in place and functioning effectively; and

- o develop and implement guidelines for managers to conduct self-evaluations of their management control programs.

Management generally concurred with the recommendations and agreed to take corrective actions. However, DIA took strong exception to findings relating to the management control program. DIA stated that the DIA Comptroller is responsible for the management control program and that MSIC does not have any functional or programmatic responsibility for development of that program. As proof that the MSIC approach to the management control program was effective, DIA cited the 17 commendable findings included in the inspection report. The DIA further responded that the report did not state whether identified violations were isolated instances or widespread systemic failures of control systems.

Project 94-1559-OA-12, "Follow-Up of Report of Outstanding Travel Advances," December 2, 1994. This audit was a followup review of Project No. 560-003-91, "Audit of Outstanding Travel Advances at the DIA," September 23, 1991. The audit was limited to FY 1994 travel advances listed as outstanding by DIA. The report states that DIA was not monitoring timeliness of travel voucher submission. However, most of the problems identified in the 1991 audit report had been resolved with the implementation of the Government-issued credit card and travelers check program. The report recommends that DIA follow guidance in the revised DIA Regulation 46-5, "Preparation of Vouchers," and monitor and enforce the timely submission of travel vouchers. Also, DIA should reemphasize the requirements for appropriate administrative elements to obtain and forward all settled DIA-funded civilian Permanent Change of Station vouchers to the DIA accounting office for reconciliation. The DIA did not provide written comments on the followup report. We found similar problems during the current audit as discussed in Part I of this report.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program and Budget)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Superintendent, Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Intelligence Agency
Inspector General, Defense Intelligence Agency
Director, Defense Logistics Agency
Director, National Imagery and Mapping Agency
Director, National Security Agency
Inspector General, National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security
House Permanent Select Committee on Intelligence

Part III - Management Comments

Defense Intelligence Agency Comments



DEFENSE INTELLIGENCE AGENCY

WASHINGTON, D.C. 20340



U-531/DC-4

02 DEC 1996

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

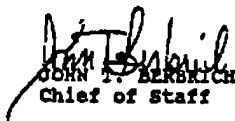
SUBJECT: Financial Accounting at the Defense Intelligence Agency

Reference: DOD/IG Memorandum, 1 October 1996, subject: Audit Report on Financial Accounting at the Defense Intelligence Agency (Project No. 6RD-2018).

1. Attached is the Defense Intelligence Agency (DIA) response to the recommendations contained in the referenced audit report.

2. Questions may be directed to Mr. Anthony A. Banko, Tel. (202) 231-2840.

Enclosure a/s


JOHN T. BERBERICH
Chief of Staff

RESPONSE TO THE DOD IS DRAFT AUDIT REPORT

1. Establish controls to verify that all received vouchers are accounted for and reported accurately.

Comment: Concur. DIA has developed a PC/Lotus application to track all vouchers/block tickets received from the various paying offices. This application was implemented in August 1996 and is currently used to prepare the problem disbursement reports and to follow-up on vouchers not processed in the accounting system.

2. Prepare the monthly Problem Disbursement Report in accordance with the Defense Finance and Accounting Service memorandums, "Policy and Procedures for Negative Unliquidated Obligations and Unmatched Disbursements," November 15, 1995, and "Problem Disbursement Reports," July 9, 1996.

Comment: Concur. DIA will change the procedures used to age disbursements in transit to conform to DFAS instructions. Aging will be based on cycle date vs block ticket date, effective with the October 1996 report.

3. Provide sufficient resources and management attention to eliminate the backlog of unrecorded disbursements that have not been recorded in accountable records.

Comment: Concur. On 1 March 1996 DIA contracted for 2 work years of effort. The option to extend this contract through FY 97 has also been exercised. Three full-time accounting technician vacancies were filled by 30 September 1996. This increase in resources should enable DIA to eliminate the disbursement backlog by 31 January 1997.

4. Establish procedures to capitalize property purchases in the General Accounting and Reporting Subsystem in accordance with DoD asset capitalization criteria in the Financial Management Regulation, and ensure that only property owned by the Defense Intelligence Agency is capitalized.

Comment: Concur. The DIA will make a one-time adjustment by 31 December 1996 in the NSA accounting system to bring the general ledger balances into agreement with the certified FY 96 property reports submitted by Agency property holders. Quarterly updates from the property account holders will be sought to ensure that the valuation shown in the accounting system is the most current possible.

While the DIA will take the steps described above, it should be noted that this Agency regards capitalizing property to be a needless and confusing exercise which does not furnish Agency managers with any useful information whatever. It is a prime

example of a wasteful financial management requirement which diverts scarce financial resource personnel from accomplishing higher priority requirements.

5. Perform a physical inventory for equipment meeting DoD capitalization criteria, consolidate the results into one subsidiary property record, and make a one-time adjustment to the General Accounting and Reporting Subsystem to reconcile the two balances.

Comment: Concur with comment. An annual physical inventory of accountable equipment is required and performed in DIA. During this inventory the hand receipt holder is required to report any accountable items discovered that are not listed on the property listing. Items discovered during the annual inventory are researched to ensure they are not listed on the accountable records then added to the accountable property record as "Found on Installation." Property meeting the capitalization criteria would automatically be reported during the next reporting cycle. See DIA response to Recommendation 4.

6. Establish procedures to periodically reconcile the equipment account in the general ledger with subsidiary property records for capitalized equipment.

Comment: Concur. DIA is developing an Agency standard property accounting system which will be able to provide a quarterly snapshot of capital equipment. In the interim a separate report from each of the five Property Book Officers would be required.

7. Establish procedures and controls for maintaining subsidiary property records for capitalized equipment to:

a. Require contracting officer representatives and end-users of equipment delivered directly to Defense Intelligence Agency components to report the equipment to property book personnel.

Comment: Concur. This is already a requirement in current regulations and procedures.

b. Record the complete cost of installed equipment in property records.

Comment: Concur. This requires coordination with the Systems Directorate to determine the components of a system. This requirement is being addressed in the development of the new support system, estimated completion is 2 years.

8. Establish procedures to record balances of Government-furnished equipment in accounting records.

Comment: Concur. DIA will require that property book holders provide a quarterly capital equipment report to the accounting office until a system is in place to do so automatically.

9. Record and report income and accounts receivable from reimbursable customers based on actual or constructive performance of reimbursable orders.

Comment: Nonconcur. Due to the nature of DIA's reimbursable activity worldwide, DIA is unable to comply with the requirement to record and report reimbursable income (earnings) based on actual or constructive performance. DIA will request a waiver from OSD to record reimbursable earnings based on obligations. The waiver will be requested by 31 December 1996.

10. Establish procedures to verify that checks received for reimbursable orders are promptly recorded.

Comment: Concur. DIA will establish procedures to ensure checks are deposited in a timely manner, and recorded promptly. Procedures will be implemented by 31 December 1996.

11. Establish controls and document procedures to bill customers for goods or services provided, and promptly follow up on delinquent accounts receivable.

Comment: Concur. DIA will establish procedures for billing, and follow up on delinquent billings. Procedures will be implemented by 31 December 1996.

12. Implement procedures to record accounts payable in the General Accounting and Reporting Subsystem from the general ledgers of Defense Intelligence Agency field centers.

Comment: Conditional Concur. DIA is dependent on NSA to modify GAC to record accounts payable. The projected system modification date is FY 1998.

13. Review the validity of outstanding accounts payable shown in the Air Force Base Level General Accounting Finance System, as required by DIA Operating Procedure No. 27, "Review and Reconciliation of Unliquidated Obligations," April 1, 1988.

Comment: Concur. The requirement to review outstanding accounts payable (unliquidated obligations) is now part of the OSD required reviews of unliquidated obligations (three times each year) and has superceded DIA Operating Procedure No. 27.

14. Establish procedures to record accrued payroll and annual leave liabilities and expenses in the General Accounting and Reporting Subsystem, and report the information in annual financial statements.

Comment: Conditional concur: The issue of recording accruals is answered under question no. 12. Annual leave liabilities will be recorded in GAC effective 31 December 1996. The recording of annual leave expenses requires NSA GL system changes projected for completion in FY 1998.

Defense Intelligence Agency Comments

Final Report
Reference

15. Review the validity of outstanding travel advances to verify that recorded advances are correct, valid, and supportable.

Comment: Concur. A review will be conducted to determine validity of outstanding travel advances. The scheduled completion date is 30 September 1997.

16. Adjust accounting records to show only valid travel advances, and take appropriate actions to collect outstanding travel advances owed to the Government.

Comment: Concur. Based on the review to be developed as described in no. 15, the accounting records will be adjusted to reflect only valid travel advances. Collection procedures will be initiated for those advances determined valid and delinquent. The scheduled completion date is 30 September 1997.

17. Reduce the reported Fund Balance with Treasury in annual financial statements for funds canceled by the U.S. Treasury.

Comment: Nonconcur. DFAS has advised the DIA that they are the only office which is authorized to write down such balances in canceled accounts.

18. Establish procedures as part of the management control program to:

a. Tailor self-evaluations of financial and property accounting functions to specific management control objectives necessary for effective management.

Comment: Concur. The DIA Deputy Comptroller for Force Structure/Management has been requested to include the subject items into the annual review process of the Internal Management Control Program Managers' Checklist.

b. Track progress in achieving control objectives for recording disbursements by others, accounting for capitalized equipment, billing and collecting accounts receivable, verifying the validity of accounts payable and travel advances, and collecting outstanding travel advances.

Comment: Concur. The progress in achieving control objectives will be tracked and periodically reported to the DIA Comptroller.

Deleted

Renumbered
as 17.

Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 11/01/99

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